

Message Text

SECRET

PAGE 01 MUSCAT 00590 01 OF 02 251007Z

21

ACTION NEA-07

INFO OCT-01 SS-14 ISO-00 L-01 H-02 INR-05 PM-03 PRS-01

SP-02 NSC-05 NSCE-00 CIAE-00 DODE-00 EUR-08 EB-03

SAB-01 SAM-01 OMB-01 /055 W
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R 250723Z MAY 75

FM AMEMBASSY MUSCAT
TO SECSTATE WASHDC 1150
INFO AMEMBASSY AMMAN
AMEMBASSY JIDDA
AMEMBASSY LONDON

S E C R E T SECTION 1 OF 2 MUSCAT 590

LIMDIS

E.O. 11652: GDS

TAGS: EFIN, MU, SA

SUBJECT: OMANGOV WINS FINANCIAL REPRIEVE

REF: A) MUSCAT 515; B) JIDDA 3384

SUMMARY: SAUDI LARGEES HAS ENABLED OMANGOV TO OVERCOME, AT
LEAST TEMPORARILY, PERSISTENT CASH FLOW PROBLEMS. ALTHOUGH
OFFICIALS BEING VERY DISCREET IN DISCUSSING DETAILS, IT
APPEARS THAT SAUDIS HAVE GRANTED EQUIVALENT OF \$100 MILLION,
AND LOANED ANOTHER SIMILAR AMOUNT. THIS, ALONG WITH EARLIER
\$50 MILLION LOAN FROM ARAB BANK OF JORDAN AND REPORTED
\$50 MILLION BBME "ROLLOVER" SHOULD PERMIT OMANIS TO REPAY
OUTSTANDING BBME LOAN AND MEET OTHER CURRENT OBLIGATIONS
WITHOUT RESORT TO COMMERCIAL SOURCES (TENTATIVE ARRANGE-
MENTS FOR LOAN THROUGH XKION DES BANQUES ARABES ET FRANCAISES--
UBAF--WILL BE DROPPED). ADVISERS YEHIA OMAR AND GHASSEN
SHAKIR RECEIVING MUCMACREDIT FOR THIS FINANCIAL COUP. SOME
OBSERVERS QUESTION WHETHER TIGHT FINANCIAL CONTROL WILL BE
IMPOSED, NOW THAT GOVERNMENT OFF THE HOOK RE IMMEDIATE
FINANCIAL DIFFICULTIES. ONE SOURCE PREDICTS THAT SALALAH

SECRET

SECRET

PAGE 02 MUSCAT 00590 01 OF 02 251007Z

AIRPORT PROJECT WILL GO FORWARD, STATES THAT NO SERIOUS

EFFORT MADE TO SPIN OUT BAG JAGUAR/RAPIER CONTRACT, AND REPORTS THAT MINISTERS GENERALLY IGNORING DEVELOPMENT AND FINANCE COUNCILS TO GO DIRECTLY TO SULTAN FOR APPROVAL OF PET PROJECTS. IF THIS EVALUATION CORRECT AND PRACTICE PERVASIVE, SAUDI BAIL-OUT MAY BE RELATIVELY SHORT REPRIEVE RATHER THAN DEFINITIVE SOLUTION TO CASH FLOW PROBLEMS. END SUMMARY.

1. GENERALLY IMPROVING FINANCIAL

SITUATION DESCRIBED IN

MUSCAT REFTEL RECEIVED MAJOR SHOT IN THE ARM ON MAY 18 WHEN MIN OF STATE QAIS ZAWAWI TRAVELED TO JIDDA TO GET FINAL WORD ON ANTICIPATED SAUDI ASSISTANCE. ALTHOUGH GOVERNMENT OFFICIALS ARE BEING TIGHT-LIPPED ABOUT DETAILS, THERE WAS AN UNDERCURRENT OF EUPHORIA FOLLOWING ZAWAWI'S RETURN ON MAY 19. EMBASSY UNDERSTANDS THAT SAUDIS HAVE GIVEN OR SHORTLY WILL MAKE AVAILABLE EQUIVALENT OF \$200 MILLION. HALF OF THIS IS OUTRIGHT GRANT. REST IS "LOAN," TERMS OF WHICH ARE FOR TWO-YEAR GRACE PERIOD, FOLLOWED BY REPAYMENT OVER TEN-YEAR PERIOD AT MINIMAL INTEREST. SAUDIS, ACCORDING TO SOME SOURCES, DO NOT SERIOUSLY EXPECT REPAYMENT OF LOAN, ALTHOUGH IT WILL BE "ON THE BOOKS" FOR FUTURE REFERENCE. LIKEWISE, PREVIOUS \$60 MILLION SAUDI LOAN (MADE IN CONNECTION WITH 60 PERCENT PARTICIPATION PURCHASE IN PD(O)) WILL STAND, BUT REPAYMENT NOT REALLY EXPECTED. ACCORDING TO OUR INFORMATION, AND CONTRARY TO SOME EARLIER EXPECTATION, NEW SAUDI FUNDS ARE UNTIED--I.E. OMANIS ARE FREE TO USE MONEY AS THEY SEE FIT, ALTHOUGH PRINCE FAHD PRESUMABLY IMPRESSED ON THEM (PERHAPS UNNECESSARILY) VIRTUE OF TAKING THIS OPPORTUNITY TO FREE THEMSELVES OF OBLIGATION TO BRITISH BANKERS. AFTER HAVING REQUESTED MILITARY "SHOPPING LIST" FROM OMANIS (PARA 2 REFTEL A), SAUDIS APPARENTLY HAVE DEFERRED ANY FURTHER ACTION WHILE HOLDING OUT PROMISE FOR FUTURE REVIEW.

2. AS A RESULT OF THIS SAUDI GENEROSITY AND LOAN ARRANGED EARLIER THROUGH ARAB BANK OF JORDAN, THERE IS CONSENSUS AMONG OMANIS THAT THEY ARE NOW OUT OF THE WOODS RE CASH FLOW PROBLEM WHICH HAS BEEN NAGGING GOVERNMENT SINCE
SECRET

SECRET

PAGE 03 MUSCAT 00590 01 OF 02 251007Z

FEBRUARY. IN UNCHARACTERISTIC FASHION, RADIO, TV, AND LOCAL PRESS GAVE PROMINENT PLAY TO MOST RECENT VISIT TO OMAN BY ADVISERS YEHIA OMAR AND GHASSEN SHAKIR. OMAR APPARENTLY WAS INSTRUMENTAL IN ARRANGING DEAL WITH SAUDIS. BOTH ARE, AS ONE OFFICIAL PUT IT, "THUMBING THEIR NOSES" AT THOSE INSIDE AND OUT OF GOVERNMENT WHO HAD WISHED THEM ILL. WHETHER OR NOT THEIR FURTUNES HAD BEEN BECLOUDED, THEY NOW PUBLICLY ARE RESTORED TO GOOD GRACE.

3. LARGER QUESTION REMAINS: HAS GOVERNMENT PROFITED FROM THIS HARD EXPERIENCE IN ORDER TO FORESTALL REPETITION? SOME OF MEASURES RECOMMENDED BY BRITISH BANKERS (E.G. HIRING OF FIRM OF ACCOUNTANTS, ETC.) PRESUMABLY WILL BE CARRIED OUT. SUCH MEASURES, ONCE IMPLEMENTED, COULD GO A LONG WAY TOWARDS ORDERING FUTURE FINANCES, ESPECIALLY IF DEVELOPMENT AND FINANCE COUNCILS EXERCISE THEIR AUTHORITIES. HOWEVER, THERE IS STILL SOME QUESTION ON LATTER POINT. MUCH DEPENDS ON FINANCIAL ADVISER SHARIF LOTFI. HE IS GIVEN HIGH MARKS JUST NOW, BUT HE IS SPREAD THIN. HE IS AN EXPATRIATE TECHNOCRAT (AS OPPOSED TO PALACE INTIMATE) AND THEREFORE AN "OUTSIDER" WHO MIGHT BE A READY-MADE SCAPEGOAT SHOULD THINGS GO SOUR. FURTHERMORE, HE STILL MUST OVERCOME WELL-ESTABLISHED PATTERN OF MINISTERS GOING DIRECTLY TO SULTAN ON PET PROJECTS.

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